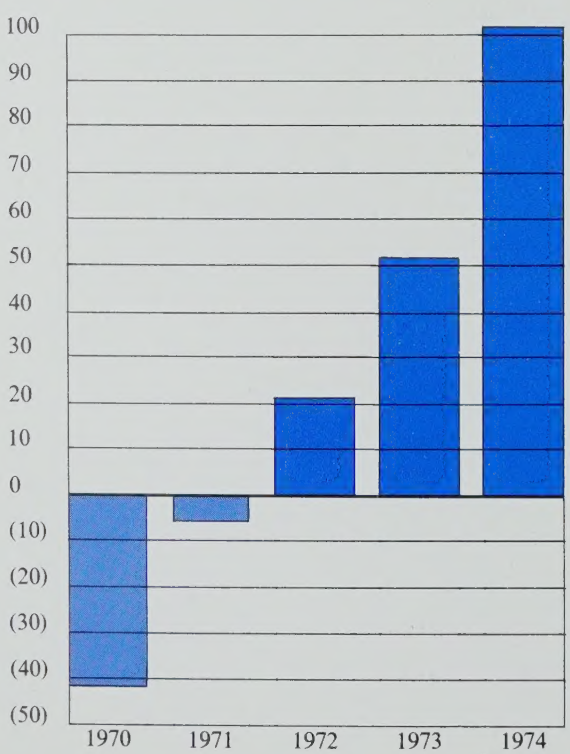
UAL, Inc. Annual Report 1974

UAL, Inc.

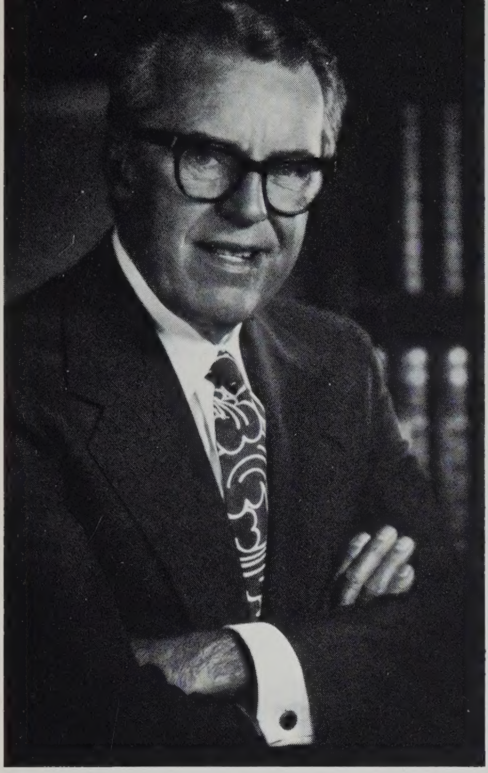
Highlights

	1974	1973	Change
Operating revenues	**$ 2,365,067,000**	$ 2,060,268,000	+ 14.8%
Operating expenses	**2,167,593,000**	1,898,092,000	+ 14.2%
Earnings before income taxes	**224,046,000**	102,197,000	+119.2%
Income taxes	**123,044,000**	51,069,000	+140.9%
Net earnings	**101,002,000**	51,128,000	+ 97.5%
Earnings per common and common equivalent share	**4.04**	2.03	+ 99.0%
Earnings per common share assuming issuance of all dilutive contingent shares	**4.01**	2.03	+ 97.5%
Stockholders' equity	**797,871,000**	713,782,000	+ 11.8%
Airline—			
Net earnings	**$ 86,381,000**	$ 48,067,000	+ 79.7%
Revenue passenger miles	**29,295,938,000**	29,121,456,000	+ .6%
Passenger load factor	**59.6%**	55.8%	+ 6.8%
Revenue passengers carried	**31,510,000**	31,176,000	+ 1.1%
Revenue ton miles	**3,734,110,000**	3,747,063,000	− .3%
Revenue plane miles flown	**359,707,000**	403,267,000	− 10.8%
Average price to passenger per mile	**6.79¢**	6.01¢	+ 13.0%
Average price to freight shipper per ton mile	**23.9¢**	21.6¢	+ 10.6%
Hotels—			
Net earnings	**$ 3,907,000**	$ 3,061,000	+ 27.6%
Occupancy	**77.5%**	76.3%	+ 1.6%
Average daily rate	**$ 32.88**	$ 30.34	+ 8.4%

UAL, Inc. Net Earnings (Loss)
Millions of Dollars



Contents



To Our Stockholders:

We are pleased and proud that your companies' consolidated net earnings for 1974 were $101 million or $4.04 per share.

Net earnings from airline and hotel operations were $90.3 million, an improvement of 77 per cent from the $51.1 million recorded last year. Total profit included $10.7 million, or 43¢ per share, for the gain earned by UAL, Inc. during the fourth quarter on its repurchase of United Airlines' convertible debentures.

Last March, the Board of Directors resumed payment of quarterly dividends on the common stock after a lapse of more than three years, and a special dividend on the common was declared in the fourth quarter.

Even though the 1974 profit was in inflated dollars, the year stands out as the best in the history of UAL, Inc. We are proud of the hard work and extra efforts by the employees of United and Western International Hotels, who made these fine results possible. Events of the last several years have repeatedly confirmed that people are our greatest asset. Our people really made the difference in 1974!

It was a tough, challenging year in many respects, beginning with the fuel crisis and followed by escalation in the cost of virtually every item required to produce air transportation and hotel services. As is frequently the case with adversity, the fuel shortage had a constructive side. The air transport industry learned how to serve the public well with fewer flights and more fully loaded airplanes. By carefully scheduling flights to conserve fuel and meet demand without excessive capacity, United's average passenger load factor for the year advanced to 59.6 per cent. This gain in productivity was the prime factor for increased airline earnings.

Fare increases were instituted during the year but, in fact, higher fares did not fully offset cost increases. United's fuel and wage and benefit costs alone went up by $210 million in 1974, while fare increases produced only $219 million in additional revenue. United's earnings were impressive, but they amounted to less than 3.9¢ per dollar of revenue and must be improved. In terms of investment, United's 1974 profit represented a rate of return of 7.9 per cent—still short of the 12 per cent found necessary by the Civil Aeronautics Board, if there are to be adequate earnings to attract the capital to maintain growth and an adequate transportation system.

The past year also brought notable progress in building the future strength of United. The directors of the company recognized the necessity for a clearly defined management succession program to facilitate transitional periods of management change.

At the December meeting of the Board of Directors, Mr. Richard J. Ferris, who had previously served as president of the Food Services Division and more recently as group vice president-marketing services, was elected president of United Airlines. I was elected chairman of the board of United and UAL, Inc., and also continue as chief executive officer of both companies.

Also, at the December meeting Mr. Charles F. McErlean, who has been United's executive vice president and chief operating officer since 1971, was elected president of UAL, Inc., and to the newly created position of vice chairman of United's Board of Directors. Mr. Percy A. Wood, formerly group vice president-operations services, succeeded Mr. McErlean as executive vice president and chief operating officer.

In approving these and related management changes, the Board of Directors paved the way for an orderly transfer of responsibilities and continuity of corporate leadership. I am confident United will have a strong management team to meet the challenges ahead.

The expanded corporate planning process introduced in 1973 has become an established part of managing United's business. It is proving valuable in identifying significant future issues and opportunities, and also provides increased capability to chart the best courses of action.

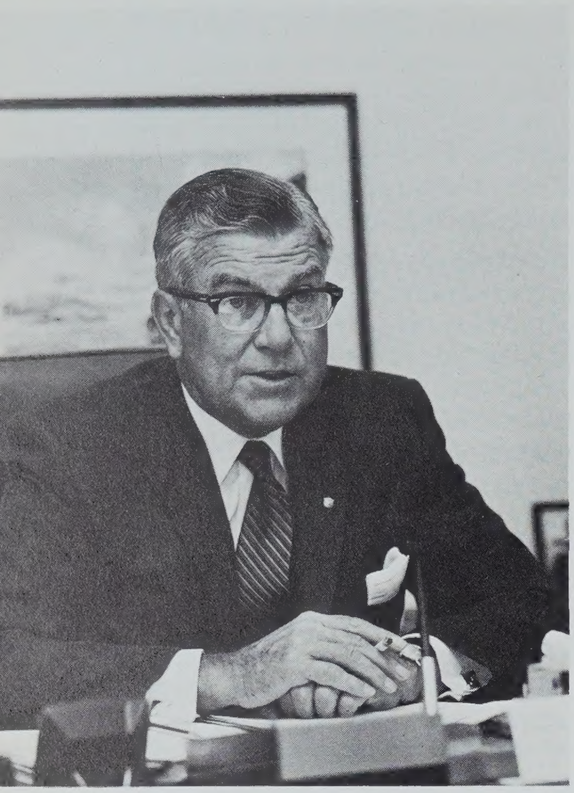
With little or no growth predicted for air travel, 1975 is shaping up as a difficult year. This means we must sell harder than ever before, tighten the reins on costs, and avoid wasteful scheduling of excess capacity. Competition for the travel dollar will intensify. To maintain good profits without traffic growth in the face of rising costs, we must offer superior quality in airline services and hotel accommodations.

More demanding measures of product quality were established by the airline in 1974. New quality hotels in Edmonton, Honolulu and suburban Detroit were added to the properties of Western International Hotels. In January 1975, the celebrated Plaza Hotel in New York was acquired.

Quality, appropriately, is the theme of this report, because we are convinced that dedication to a quality product spelled success in 1974. Constant emphasis on quality service to customers will maintain our competitive momentum in 1975.

Edward E. Carlson
Chairman and Chief Executive Officer,
UAL, Inc. and United Airlines

March 10, 1975



Charles F. McErlean, President of UAL, Inc., and Vice Chairman of United Airlines

UAL, Inc.

Financial Review

Summary of Consolidated Net Earnings

	1974	1973	Change
	(000)	(000)	
Airline	**$ 86,381**	$48,067	+80%
Hotels	**3,907**	3,061	+28%
Gain on debenture repurchase	**10,714**	—	—
	$101,002	$51,128	+98%

In 1974, consolidated net earnings of UAL, Inc. were $101,002,000, equal to $4.04 per common and common equivalent share ($4.01 per common share after dilution). Net earnings for 1974 include $10,714,000, or 43¢ per common and common equivalent share, attributable to the gain on the repurchase by UAL, Inc. of United Airlines' convertible debentures.

Net earnings from airline and hotel operations were $90,288,000, or $3.61 per common and common equivalent share compared with $51,128,000, or $2.03 per share in 1973. About two-thirds of the improvement in these earnings resulted from:

- more earnings on temporary investments, reflecting the companies' stronger cash position and higher interest rates.
- no charges in 1974 for depreciation on non-operating aircraft or for additional depreciation on other aircraft with non-fan engines.

During the fourth quarter of 1974, about 21% of the outstanding United Airlines' convertible debentures were repurchased at a discount by UAL, Inc. through a cash offer to debenture-holders. The after-tax gain from the discount upon repurchase of the debentures added to 1974 net earnings. In addition, interest savings of $2,170,000 will be realized each of the next three years; subsequent years' savings will gradually decline from this level.

Dividends to common shareholders were improved in December, 1974 with the payment of a special dividend of 12½¢ per share and an increase in the quarterly dividend to 15¢ per share. Total dividends paid to common shareholders in 1974 were 65¢ per share.

Consolidated revenues in 1974 totaled $2,365,067,000, up 14.8 per cent from $2,060,268,000 in 1973. Operating expenses were

Fourth Quarter Results	1974	1973
	(000)	(000)
Operating Revenues—		
Airline	**$530,855**	$503,242
Hotels	**40,226**	30,544
Total	**571,081**	533,786
Income Taxes	**32,261**	10,135
Net Earnings	**11,861** (1)	8,470 (2)
Earnings per common and common equivalent share	**$ .47** (1)	$ .33

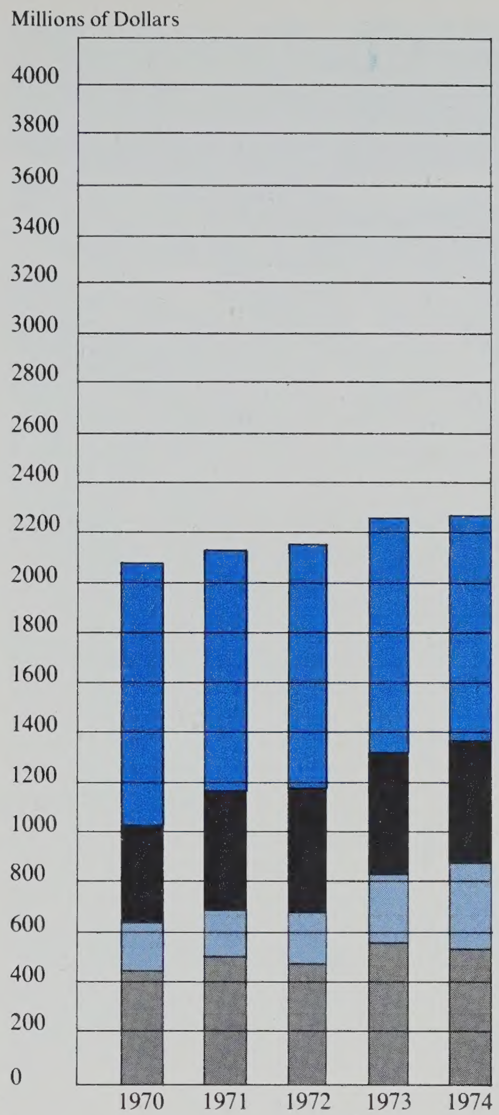
(1) Includes $10,714,000 (43¢ per share) gain on debenture repurchase.

(2) Net earnings for the quarter were reduced $3,837,000 as a result of additional depreciation provisions on non-fan aircraft offset, in part, by retroactive mail pay revenue.

$2,167,593,000, an increase of 14.2 per cent from $1,898,092,000 in 1973.

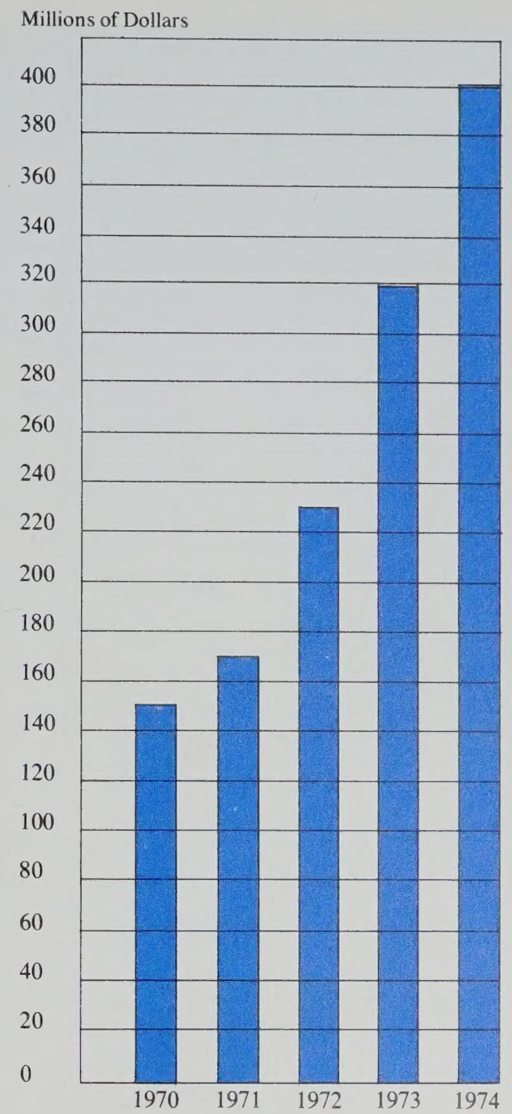
The company's consolidated financial position was strengthened during 1974, marked by:

- a $30,000,000 net reduction in long-term debt.
- a $202,000,000 increase in working capital.



Invested Capital

Debt
Capital Stock
Reinvested Earnings
Leased Aircraft (unamortized value)



Cash Generated by Operations

UAL, Inc. Market Prices * and Dividends

	Common Stock			Series A $.40 Preferred Stock		
	High	Low	Dividends	High	Low	Dividends
1973						
1st Quarter	34½	18⅞	$ —	33½	19¾	$.10
2nd Quarter	27	16	—	27¼	16¼	.10
3rd Quarter	25⅛	15⅜	—	24	16	.10
4th Quarter	28	17⅜	—	27⅝	18¼	.10
1974						
1st Quarter	**29⅞**	**19**	**$.12½**	**29½**	**19¼**	**$.10**
2nd Quarter	**29¾**	**22⅞**	**.12½**	**29½**	**20⅝**	**.10**
3rd Quarter	**24⅛**	**15**	**.12½**	**23¼**	**15¼**	**.10**
4th Quarter	**20**	**13**	**.27½**	**19¼**	**13⅛**	**.10**

*Market prices as reported by the *Wall Street Journal*

United Airlines

R. J. Ferris, President

P.A. Wood, Executive Vice President and Chief Operating Officer

Consolidated net earnings from airline operations were $86,381,000, best in United's history and an advance of 80 per cent over 1973 net earnings of $48,067,000. In the company's previous record year, 1967, net earnings totaled $72,819,000 but on a substantially lower revenue base.

	1974	1973	Change
	(000)	(000)	
Operating Revenues	**$2,219,251**	$1,945,703	+ 14.1%
Operating Expenses	**2,036,857**	1,794,395	+ 13.5%
Earnings from Operations	**$ 182,394**	$ 151,308	+ 20.5%
Other Deductions (income), net	**(11,922)**	56,279	—
Earnings Before Income Taxes	**$ 194,316**	$ 95,029	+104.5%
Income Taxes	**107,935**	46,962	+129.8%
Net Earnings	**$ 86,381**	$ 48,067	+ 79.7%

Passenger revenues were $1,989,657,000, up 13.7 per cent over 1973, and cargo revenues were $193,915,000, up 2.5 per cent. Although fuel restrictions curtailed charter operations early in the year, revenue from this increasingly important type of service rose 4.6 per cent to $71,513,000.

Traffic Profile

United carried 31,510,000 revenue passengers in 1974. Revenue passenger miles totaled 29.3 billion, a gain of less than 1 per cent over the 29.1 billion flown in the previous year. The passenger load factor was 59.6 per cent, up from 55.8 per cent a year ago. Seat mile capacity was cut to 49.1 billion, 5.8 per cent under 1973. Cargo ton miles totaled 804.6 million, down 3.6 per cent from 1973's volume.

Passengers diverted from auto to air travel by the gasoline shortage early in 1974 supplied an unexpected stimulus for first half traffic growth. Gains from this source tapered off in the second quarter and by late summer, reflecting general economic conditions, traffic trended down. Fourth quarter volume was below the same period of 1973, partly because last year's fourth quarter traffic was inflated by a strike against a major competitor.

In recent years, pleasure and business travel have each accounted for about 50 per cent of United's passenger traffic, but in 1974 the ratio shifted to 48 per cent pleasure and 52 per cent business. Pleasure travel was adversely affected by the decline in real discretionary income and termination of Youth and Family Plan discount fares by a Civil Aeronautics Board order. Discover America excursion fares, which United had introduced in 1966, also were discontinued by a CAB decision.

The overall volume of Hawaiian traffic carried by U.S. airlines increased only 3 per cent in 1974, but United's growth in this market was outstanding, a gain of 18 per cent over 1973. Underlying this success was United's decision to keep all of its 18 Boeing 747s in service on Hawaiian and transcontinental routes at the time when other airlines were withdrawing this large jet from service because of the fuel crisis. Given adequate loads, the wide body 747 is decidedly fuel efficient and, in addition, has great passenger appeal.

On-Time Performance

Most important in the company's 1974 progress was the high quality of both flight operations and inflight services. Adverse weather and unusually heavy traffic volumes affected first quarter performance, and there was an increase in traffic delays at major airports during the third quarter. However, 79 per cent of United's flights arrived on time or within 15 minutes of scheduled time. "Operation Wake-Up" launched in

1973, continued to benefit overall performance. The program is premised on the principle that a prompt start daily on trips originating between the hours of 6 a.m. and 10 a.m. results in better operations throughout the day. In the program's first year, 85 per cent of "Wake-Up" flights departed within 5 minutes of schedule; this was advanced to 86 per cent in 1974.

Standards of Quality Service

For years United has found that customers judge the quality of airline service in terms of total step-by-step performance, ranging from fast response to calls for reservations and extending to timely delivery of baggage at destination. A program known as "Focus on Customer Service" was developed to evaluate and monitor the quality of airport departure-and-arrival services. Over the past five years, this program has resulted in effective quality control at major terminals.

Standards were established in 1974 for continuous evaluation of reservations and six types of services provided at airports. The responses of station personnel to passengers' needs are appraised in terms of courtesy and friendliness, as well as service performed.

Half of 1974 corporate goals were exceeded, while the rest were only slightly below the desired level. Ticketing service was well over standard, reflecting systemwide use of high-speed printers which prepare tickets in a few seconds. Baggage check-in was just under the mark, while baggage delivery was above standard. However, United feels that baggage handling in general can be further upgraded. New methods of baggage processing are being studied and United also is working to improve baggage transfer between airlines.

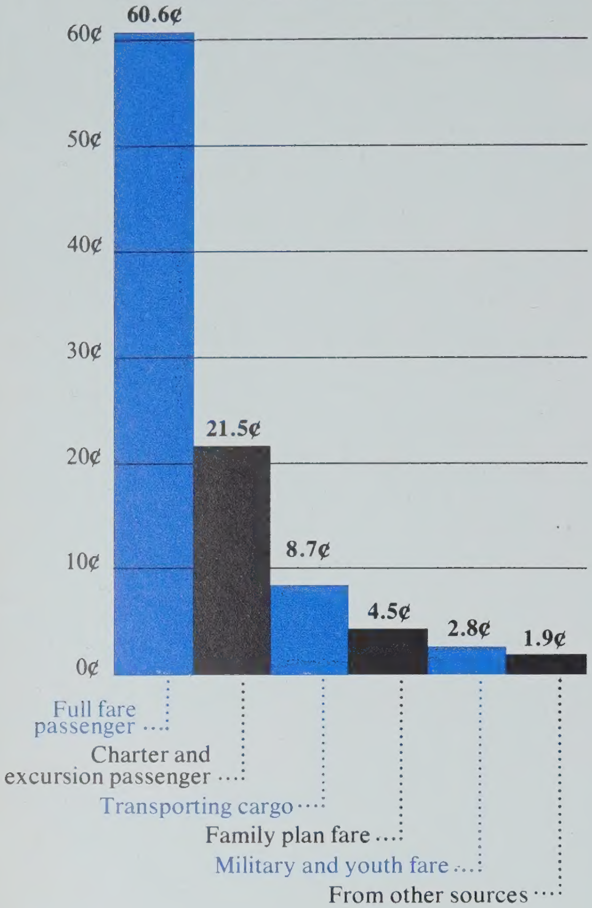
New Automated Services

Automated teleticketing was introduced by United in 1974 as an industry "first" to provide faster ticket service for travel agencies and major commercial accounts. With automated teleticketing, the time between ordering a ticket and its delivery in the customer's office is reduced from two hours to five minutes.

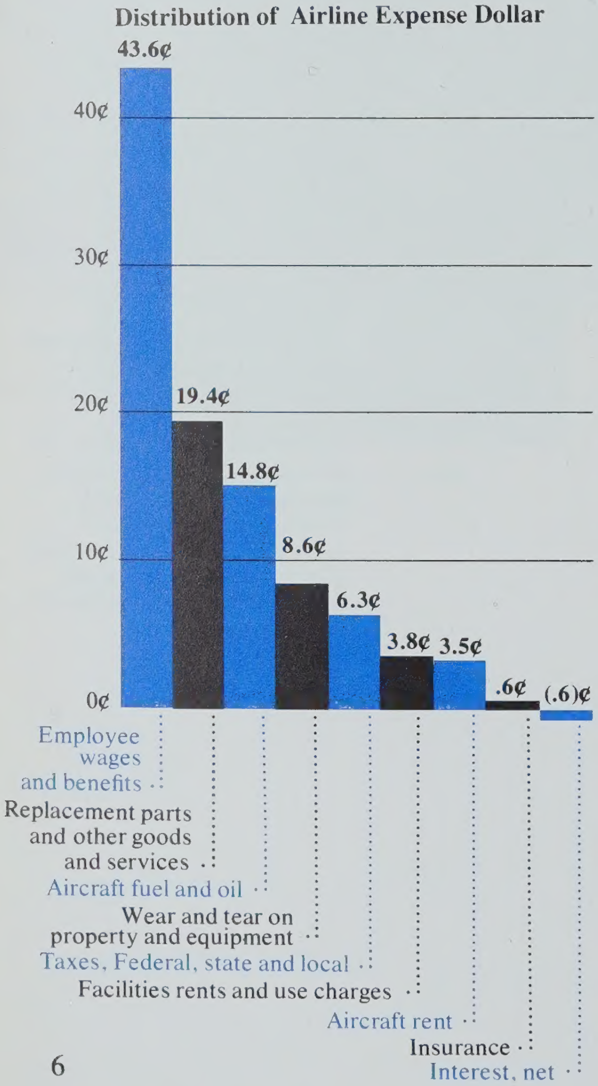
Automated Check-In (ACI) was successfully installed at New York and Omaha in 1974. The ACI system makes it possible to check-in at any of a number of locations in the passenger terminal, significantly reducing lines at counters. ACI is tied in with the company's Apollo computer system to provide automatic boarding control, seat selection and stand-by passenger handling. ACI installations are planned for 19 passenger terminals in 1975, and by 1977 the system will be serving more than 80 per cent of United's passengers.

United's automated teleticketing service processes and delivers tickets to any of the company's participating commercial accounts within five minutes. At United's reservations center in Denver (above), the Apollo computer receives a ticket request, determines correct fare, then automatically prints the ticket on the teletype machine in the customer's office.

Sources of Airline Revenue Dollar



Distribution of Airline Expense Dollar



New Corporate Identity

In September, United began transforming its corporate appearance by introducing a new service mark, logotype and color scheme. The logotype has an updated type style, and the name, United Air Lines, is now spelled as two words, United Airlines.

Warmth, modernity, and an innovative spirit are the qualities conveyed in the new identifying marks and colors, now being applied systemwide. To minimize cost, repainting of aircraft is proceeding as part of the normal maintenance cycle. Collateral material of all types will be changed as supplies are depleted.

In the Marketplace

Fare increases granted to the industry by the Civil Aeronautics Board in 1974 were necessary to help offset the rising costs of fuel, materials and higher labor rates. However, to stimulate pleasure travel and traffic growth, United has been a leader in developing low-price tours and economical promotional fares.

In July, United introduced Layaway Fares in a number of transcontinental markets. This program offered discounts of 25 to 33 per cent on summer travel and 30 to 39 per cent in winter. In October the company initiated Bargain Days, with discounts of 25 per cent on midweek travel between markets of more than 1,500 miles.

On February 1, 1975, United instituted its Bicentennial Fare, offering rountrip coach discounts of 20 to 25 per cent, depending on the season, for flights over specified distances. Accompanied children travel at a 50 per cent discount. Florida and Hawaii are excluded because of other promotional fares available for those markets.

The wide array of vacation travel packages offered in 1974 included many geared to low-cost inclusive tour-basing fares, with specially priced ground accommodations and sightseeing arrangements. Hawaii, Las Vegas and the West Coast were spotlighted as prime destinations. Also marketed were special interest travel packages, such as tennis and skiing tours, and do-your-own programs which provided the basics—air travel, hotel space, ground transportation—but otherwise left people to their own devices. More than 1.4 million of United's vacation and tour packages were sold by travel agents.

New additions to the 1975 pleasure travel program include air-and-sea cruises from the West Coast to Alaska and Mexico in conjunction with Sitmar Cruises; an Ilikai Holiday, featuring Western International's Ilikai Hotel in Honolulu, plus more tours of the Neighbor Islands.

Cargo

A new Cargo Division was formed in 1974 to concentrate on air freight marketing and support services. This organization also coordinates programs developed by the operating divisions to improve ground handling and baggage services.

In November, United withdrew from industry agreements with REA Express, Inc. under which air express service had been provided by the air transport industry for more than 45 years. Five other carriers also have withdrawn. Although United proceeded to develop a replacement, "First Freight," to meet the public need for expedited air freight service, the initial tariff was suspended by the CAB. A new tariff is being developed.

Throughout the year United served shippers with the largest air freighter fleet in the domestic industry, supplemented by cargo capacity of both standard and wide body passenger aircraft.

The Friend Ship Fleet

Seven DC-10s were delivered in 1974, increasing the wide body operating fleet to 43 aircraft—18 Boeing 747s and 25 DC-10s. Seven more DC-10s will be received in 1975, along with the return of five DC-10s which have been on lease to Delta Air Lines. The DC-10 deliveries will complete all outstanding orders for aircraft.

Television entertainment systems will be installed on DC-10s in 1975 under an agreement with Bell & Howell which will manufacture and maintain the equipment. Each DC-10 will be outfitted with a video-cassette playback unit and three 25-inch TV sets. Showings of feature length films may be supplemented with special video material and promotional pieces.

Improvement of the standard body

fleet continued throughout the year, with additional interior conversions to the attractive "wide body" look. Cabin renovation also is planned for 16 standard DC-8s and 46 Boeing 727s in 1975.

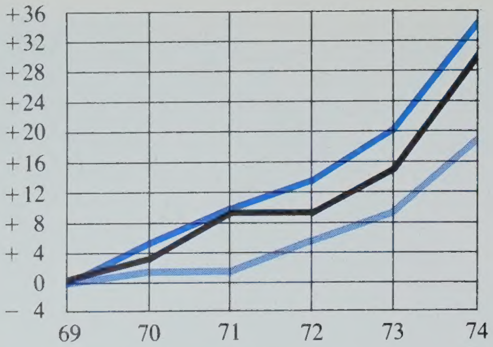
As part of a continuing study of aircraft needs for 1978 and beyond, United and the Boeing Company agreed in December to work jointly in developing specifications for a larger version of the Boeing 727, known as the 727-300. The proposed aircraft would offer higher capacity, improved economics, and lower noise levels, but it would retain the advantages of considerable commonality with 727s in parts and other features.

Aircraft Scheduling and Fuel Conservation

Scheduling throughout the year was closely related to the Federal government's allocation program which limited the amount of jet fuel available. Excess capacity was scaled down in various markets through unilateral schedule reductions and by agreement with other carriers, as approved by the Civil Aeronautics Board.

Because of flight frequency restrictions during the year, revenue plane miles flown were 10.8 per cent less than in 1973. However, available seat miles decreased only 5.8 per cent due to greater use of wide body aircraft.

A United employee carefully applies the new corporate logotype to one of United's aircraft while it is in for normal maintenance.



Cost of Living Vs. United's Passenger Fares and Cargo Rates
Percent Increase From 1969

Consumer price index
Revenue per passenger mile
Revenue per cargo ton mile

As a further move to maintain capacity despite flight frequency restrictions, the number of seats on DC-8s and 727-200 aircraft were increased. By the peak travel month of August, available seat miles were down only 2 per cent from August, 1973, but departures and miles flown both were down 7 per cent.

As a result of reduced flying and conservation measures applied by the Flight Operations Division, jet fuel consumption for 1974 was more than 200 million gallons below the quantity specified in the company's original operating plan for 1974. United's conservation measures were significant both economically and in view of the national need to save energy.

The average price per gallon paid for jet fuel in 1974 was 68 per cent higher than a year earlier, which would have increased United's bill by $128 million due to price alone. However, reduced flying and stringent conservation measures lowered fuel consumption almost 12 per cent. Nonetheless, the total fuel bill increased by over $100 million.

United believes the essential role of air transportation in the national interest was not correctly assessed in the early stages of the Federal fuel allocation program, and that recurrence of this error must be avoided. The company's position on the long-term energy problem is that consumption must be reduced and energy redistributed for its most efficient and economical use until alternate sources are developed.

Federal Regulation

The Civil Aeronautics Board continued to exercise restraint in awarding new competitive routes. Your company believes this is a sound and reasonable course, justified by the energy crisis and economic problems of the air transport industry.

United supports a full and impartial examination of Federal regulatory agencies, but your company is opposed to wholesale deregulation of air transportation. Your management believes such action would result in industry chaos and disservice to the traveling public. The unique U. S. system of privately owned carriers operating competitively within a regulated environment has provided this country with the finest and lowest priced air transportation service in the world.

The Consumer and United

The Consumer Affairs Department was restructured in 1974 to improve four functions: consumer services, consumer relations, education and information. Along with other advantages, the realignment resulted in faster processing of customer claims and complaints.

Based on the number of complaints on airline service received by the CAB's Office of Consumer Affairs, United's performance in 1974 was the best of the five major airlines. Fair treatment of customers has long been a basic tenet in your company's operating philosophy, not one stimulated by the consumer movement of recent years.

Management Development and Succession

High priority has been given to United's management succession program, designed to develop depth of capabilities in managerial ranks. By determining future needs and establishing developmental programs for qualified personnel, the program insures a high level of management competence for the future.

A trainee program, reactivated in 1974, is being conducted for high-potential future managers. Emphasis also has been given to identifying managerial talent, both in non-management and management ranks.

Development of management skills by women and members of minority groups is stressed in all programs to further the company's Affirmative Action objectives.

In Memoriam

Your management was saddened by the death of two Directors Emeriti in 1974—Paul G. Hoffman and Vernon B. Stouffer. Their counsel and judgments contributed to United's progress in the post-war years and the company's rapid emergence as the world's foremost airline. Mr. Hoffman, a leader in the automotive industry and later administrator of the Marshall Plan and other international programs, served as a company director from 1944 to April, 1966. Mr. Stouffer, founder of the restaurant chain and food corporation that bears his name, was

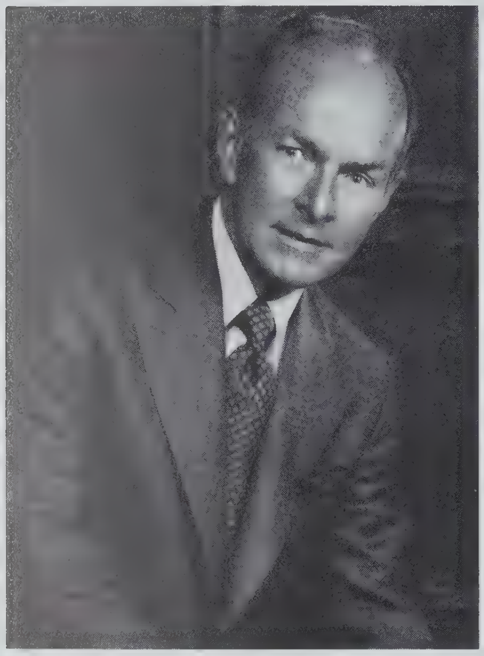
prominent in the civic and cultural life of Cleveland. He became a director in 1955 and retired from the board in April, 1973.

Aircraft Type	Current Fleet Owned	Current Fleet Leased	On Order
MAINLINERS			
B-747	9	9	—
DC-10	22	8	7*
DC-8-62	4	5	—
DC-8-61	24	6	—
DC-8	51	6	—
B-727-222	25	3	—
B-727	67	40	—
B-727-QC	—	15	—
B-737	67	—	—
FREIGHTERS			
DC-8F	15	—	—
Total	284	92	7*

United's Jet Fleet December 31, 1974
*To be delivered in 1975

The popular Boeing-747, one of 18 in the United fleet, rises into the Friendly Skies.

L. P. Himmelman, Chairman and Chief Executive Officer



Harry Mullikin, President

Western International Hotels

Western International is proud to report another year of excellent hotel earnings with a significant improvement over those reported last year. Consolidated net earnings were $3,907,000 in 1974 compared with $3,061,000 in 1973.

John Portman designed first-class convention hotels—the 1,400-room Detroit Plaza in Detroit, the 1,100-room Peachtree Plaza in Atlanta and the 1,100-room Bonaventure, Los Angeles. The Peachtree Plaza will open early in 1976, followed by the Detroit Plaza in early 1977 and the Los Angeles Bonaventure in late 1977.

We are also pleased to report that Harry Mullikin, president of the company, has been elected president of the American Hotel and Motel Association for the year 1975.

Construction In Progress

Hotels to be completed in 1975 include the 600-room Hotel Toronto, scheduled for opening in the early summer of 1975; the 500-room Hotel Scandinavia, Oslo, scheduled for opening in late spring of 1975; and the South Coast Plaza, Orange County,

	1974	1973	Change
	(000)	(000)	
Operating Revenues	**$145,816**	$114,565	+27.3%
Operating Expenses	**130,736**	103,697	+26.1%
Earnings From Operations	**$ 15,080**	$ 10,868	+38.8%
Other Deductions, net	**5,953**	3,700	+60.9%
Earnings Before Income Taxes	**$ 9,127**	$ 7,168	+27.3%
Income Taxes	**5,220**	4,107	+27.1%
Net Earnings	**$ 3,907**	$ 3,061	+27.6%

During 1974, Western International re-entered the Hawaiian market with the return of the Ilikai Hotel to the Western family of quality hotels. In addition, 1974 saw the completion of the 407-room addition to the Continental Plaza Hotel, situated on Chicago's Gold Coast, bringing that fine hotel to a total of 747 hotel rooms. The company also entered the Detroit area hotel market with the opening of the Michigan Inn in Southfield, a 425-room facility. The 350-room Edmonton Plaza, Edmonton, Alberta, was also completed, adding another major city to the fine complement of Western International's Canadian properties.

Late in the fall of 1974, the company announced that a contract for purchase of the famed Plaza in New York City was executed. The acquisition was completed on January 29, 1975. The reputation of Western International for quality of facilities will certainly be enhanced with the addition of this world renowned hotel.

Construction continues on the three

California, to be opened in the early fall of 1975 with 400 first-class rooms to meet the expanding demand in Southern California for hotels which combine resort amenities with appropriate meeting room and other public facilities generally associated with downtown hotels. Western International, through its Mexican affiliate, will manage a beautiful 250-room resort property due to open in June, 1975, in the new resort destination, Cancun, in the Caribbean just off the Yucatan Coast.

We are also pleased to report a major addition to the Camino Real, Guatemala City, to be completed this year.

Development Programs

The success of the Shangri-La Hotel in Singapore has been a catalyst for Western International to increase its efforts to expand in the Far East. In the United States, the company continues to work with Gerald D. Hines Interests on the expansion of the Houston Oaks Hotel in the Galleria Plaza, Houston, and the company is now working with

developers in St. Louis for management of an 800-room hotel to be a part of the Mercantile Plaza development in downtown St. Louis.

As has been the case in the past, the company strategy for future development is based upon the philosophy that "People Make the Difference" along with a continued expansion of its position in the quality hotel market and continuing a reputation for quality of service and facility for all its guests.

Western International Hotels

UNITED STATES
Anchorage, Alaska
Anchorage-Westward
Chicago, Illinois
Continental Plaza
Colorado Springs, Colorado
Antlers Plaza
Denver, Colorado
Cosmopolitan
Detroit, Michigan (Southfield)
Michigan Inn
Honolulu, Hawaii
Ilikai
Houston, Texas
Houston Oaks
Kansas City, Missouri
Crown Center
Los Angeles, California
Century Plaza
New York, New York
The Plaza
Pittsburgh, Pennsylvania
Carlton House
Portland, Oregon
Benson
San Francisco, California
St. Francis
Miyako
Seattle, Washington
Olympic
Space Needle Restaurant
Washington Plaza
Washington, D.C.
Mayflower

CANADA
Calgary, Alberta
Calgary Inn
Edmonton, Alberta
Edmonton Plaza
Montreal, Quebec
Bonaventure
Vancouver, British Columbia
Bayshore Inn
Winnipeg, Manitoba
Winnipeg Inn

MEXICO
Acapulco
Acapulco Malibu
Guadalajara
Camino Real
Mazatlan
Camino Real
Mexico City
Alameda
Camino Real
Puerto Vallarta
Camino Real
Saltillo
Camino Real
Tampico
Camino Real

AUSTRALIA
Sydney, New South Wales
Wentworth

DENMARK
Copenhagen
Hotel Scandinavia

EL SALVADOR
San Salvador
Camino Real

GUATEMALA
Antigua
Antigua
Guatemala City
Camino Real

HONG KONG
Kowloon
Miramar

JAPAN
Kyoto
Miyako
Tokyo
Takanawa Prince
Tokyo Prince

SINGAPORE
Singapore
Shangri-La

SOUTH AFRICA
Johannesburg
Carlton

THAILAND
Bangkok
Dusit Thani

Hotels Under Construction

UNITED STATES
Atlanta, Georgia
Peachtree Center Plaza (1976)
Detroit, Michigan
Detroit Plaza (1977)
Los Angeles
Hotel Bonaventure (1977)
Orange County, California
South Coast Plaza (1975)

CANADA
Toronto, Ontario
Hotel Toronto (1975)

MEXICO
Cancun, Yucatan
Camino Real (1975)

NORWAY
Oslo
Hotel Scandinavia (1975)

New York City's famed Plaza Hotel acquired by Western International in January, 1975.

UAL, Inc.
Statements of Consolidated Earnings

for the years ended December 31	1974	1973
Operating revenues:		
Airline—		
Passenger	**$ 1,989,657,000**	$ 1,749,389,000
Freight	**150,231,000**	140,222,000
Mail and express	**43,684,000**	49,007,000
Other revenue, net	**41,525,000**	35,575,000
Mutual aid	**(5,846,000)**	(28,490,000)
Hotels	**145,816,000**	114,565,000
	$ 2,365,067,000	$ 2,060,268,000
Operating expenses:		
Airline operations—		
Flying and ground operations	**$ 1,244,356,000**	$ 1,070,470,000
Maintenance	**293,655,000**	256,326,000
Hotel operations	**107,288,000**	85,389,000
Depreciation and amortization	**190,799,000**	199,189,000
Sales and advertising	**214,918,000**	191,579,000
General and administrative	**116,577,000**	95,139,000
	$ 2,167,593,000	$ 1,898,092,000
Earnings from operations before income taxes	**$ 197,474,000**	$ 162,176,000
Other deductions (income), net:		
Interest on long-term debt	**$ 61,296,000**	$ 61,541,000
Interest income	**(66,739,000)**	(17,668,000)
Interest capitalized	**(5,740,000)**	(5,102,000)
Property losses and adjustments, net	**1,047,000**	5,360,000
Non-operating aircraft expense	**—**	15,211,000
Gain on debenture repurchase	**(20,603,000)**	—
Other, net	**4,167,000**	637,000
	$ (26,572,000)	$ 59,979,000
Earnings before income taxes	**$ 224,046,000**	$ 102,197,000
Income taxes	**123,044,000**	51,069,000
Net earnings	**$ 101,002,000**	$ 51,128,000
Earnings per common and common equivalent share	**$ 4.04**	$ 2.03
Earnings per common share assuming issuance of all dilutive contingent shares	**$ 4.01**	$ 2.03

The accompanying notes to consolidated financial statements are an integral part of these statements.

UAL, Inc.
Statements of Changes in Consolidated Financial Position

for the years ended December 31	1974	1973
Working capital at beginning of year	**$166,658,000**	$ 23,334,000
Additions during year:		
Net earnings	**$101,002,000**	$ 51,128,000
Add expenses not requiring outlay of funds—		
Depreciation and amortization	**190,799,000**	199,189,000
Depreciation on non-operating aircraft	**—**	14,032,000
Deferred income taxes	**99,934,000**	47,583,000
Other	**8,731,000**	8,183,000
Funds provided from operations	**$400,466,000**	$320,115,000
Sale of long-term debt	**65,145,000**	10,622,000
Reimbursement of construction costs	**74,989,000**	—
Refund of Federal income taxes	**40,346,000**	—
Other, net	**(13,326,000)**	10,609,000
	$567,620,000	$341,346,000
Used during year:		
Purchase of and advances on flight equipment	**$144,646,000**	$ 73,120,000
Purchase of other property and equipment	**108,907,000**	54,526,000
Reduction of long-term debt	**94,783,000**	66,497,000
Redemption of 5½% prior preferred stock	**615,000**	1,867,000
Dividends to stockholders	**16,298,000**	2,012,000
	$365,249,000	$198,022,000
Net increase in working capital	**$202,371,000**	$143,324,000
Working capital at end of year	**$369,029,000**	$166,658,000

Changes in Elements of Working Capital

	1974	1973
Increase (decrease) in current assets:		
Cash and temporary investments	**$228,239,000**	$161,528,000
Receivables	**10,355,000**	24,898,000
Expendable parts and operating supplies	**26,855,000**	5,290,000
Other	**(2,307,000)**	1,099,000
	$263,142,000	$192,815,000
Increase (decrease) in current liabilities:		
Long-term debt maturing within one year	**$ 3,008,000**	$ (2,507,000)
Accounts payable and accrued liabilities	**37,621,000**	39,384,000
Accrued income taxes	**19,760,000**	1,419,000
Other	**382,000**	11,195,000
	$ 60,771,000	$ 49,491,000
Net increase in working capital	**$202,371,000**	$143,324,000

The accompanying notes to consolidated financial statements are an integral part of these statements.

UAL, Inc.
Statements of Consolidated Financial Position

as of December 31	1974	1973
Assets		
Current assets:		
Cash	**$ 45,009,000**	$ 81,100,000
Temporary investments, at cost which approximates market	**418,717,000**	154,387,000
Receivables, less allowance for doubtful accounts	**262,733,000**	252,378,000
Flight equipment expendable parts, at average cost, less obsolescence allowance (1974, $15,182,000; 1973, $12,785,000)	**97,847,000**	76,494,000
Maintenance and operating supplies, at average cost	**24,442,000**	18,940,000
Prepaid expenses	**16,889,000**	19,196,000
	$ 865,637,000	$ 602,495,000
Operating property and equipment:		
Flight equipment, at cost	**$2,228,970,000**	$2,073,694,000
Less—Accumulated depreciation	**1,002,149,000**	860,918,000
	$1,226,821,000	$1,212,776,000
Advances on flight equipment purchase contracts	**35,878,000**	53,055,000
	$1,262,699,000	$1,265,831,000
Other property and equipment at cost	**$ 707,161,000**	$ 682,137,000
Less—Accumulated depreciation	**295,911,000**	251,957,000
	$ 411,250,000	$ 430,180,000
	$1,673,949,000	$1,696,011,000
Other assets:		
Receivables and investments	**$ 63,457,000**	$ 59,547,000
Aircraft introductory costs and hotel pre-opening expenses, being amortized	**8,543,000**	9,437,000
Other	**17,281,000**	18,093,000
	$ 89,281,000	$ 87,077,000
	$2,628,867,000	$2,385,583,000

The accompanying notes to consolidated financial statements are an integral part of these statements.

	1974	1973
Liabilities and Stockholders' Equity		
Current liabilities:		
Long-term debt maturing within one year	**$ 23,185,000**	$ 20,177,000
Accounts payable and accrued liabilities	**370,764,000**	333,143,000
Advance ticket sales and customer deposits	**65,041,000**	63,041,000
Accrued income taxes	**23,404,000**	3,644,000
Accrued interest on long-term debt	**14,214,000**	15,832,000
	$ 496,608,000	$ 435,837,000
Long-term debt	**$ 939,366,000**	$ 969,004,000
Deferred credits:		
Deferred income taxes	**$ 380,960,000**	$ 240,846,000
Other	**12,893,000**	25,290,000
	$ 393,853,000	$ 266,136,000
Minority interest in subsidiaries	**$ 1,169,000**	$ 824,000
Stockholders' equity:		
5½% cumulative prior preferred stock, $100 par value; authorized and outstanding 71,702 shares	**$ 7,170,000**	$ 8,170,000
Preferred stock, no par value; authorized 16,000,000 shares; issued 1,116,114 shares of Series A $.40 cumulative (convertible), involuntary liquidation value, $25 per share, aggregating $27,902,850	**5,581,000**	20,879,000
Common stock, $5 par value; authorized 50,000,000 shares; outstanding 24,237,266 shares	**121,186,000**	105,888,000
Additional capital invested	**339,073,000**	338,688,000
Retained earnings	**326,979,000**	242,275,000
Less—454,261 shares of Series A $.40 cumulative preferred stock held in treasury—at cost	**(2,118,000)**	(2,118,000)
	$ 797,871,000	$ 713,782,000
	$2,628,867,000	$2,385,583,000

UAL, Inc.
Notes to Consolidated Financial Statements

Summary of Significant Accounting Policies

Consolidation
The principal operating subsidiaries of UAL, Inc. (UAL) are United Air Lines, Inc. (United) and Western International Hotels Company (Western International), both of which are wholly-owned. The consolidated financial statements include the accounts of UAL and all of its subsidiaries. All significant intercompany transactions have been eliminated.

Airline Revenue
Airline passenger fares are recorded as operating revenue when the transportation is furnished. The value of unused tickets is carried in the financial statements under current liabilities. Other services, such as cargo, are not normally paid for in advance.

Foreign Currency
The accounts of foreign subsidiaries are translated into U.S. dollars at exchange rates in effect at the end of each year for current assets and liabilities, at historical exchange rates for depreciation, amortization and noncurrent assets and liabilities, and at average exchange rates for income and expense (except for depreciation and amortization).

Maintenance
The companies charge maintenance and repairs, including the cost of minor replacements, to maintenance expense accounts. Costs of additions to and renewals of units of property are charged to property and equipment accounts.

Depreciation and Retirements
Depreciation and amortization is based on the straight-line method over the estimated service lives of depreciable assets. Leasehold improvements are amortized over the remaining period of the lease or the estimated service life of the asset, whichever is less.

Aircraft are, in general, depreciated to a nominal salvage value over lives of 14 to 16 years. Provisions for depreciation of aircraft, expressed as a percentage of depreciable cost, were 6.8 per cent in 1974, which is approximately equivalent to an average composite life of 15 years. Buildings are depreciated over lives of from 25 to 40 years.

Effective January 1, 1975, United adopted a policy of group/composite depreciation for aircraft. Upon the retirement or sale of property and equipment depreciated on a group/composite basis, the cost thereof, less net salvage realized, is charged to accumulated depreciation and no gain or loss is recognized. For years prior to 1975, United utilized a unit depreciation concept, under which gain or loss on retirements of individual units of property was reflected in earnings. It is not anticipated that this accounting change will have any material effect on net earnings in future years.

For years prior to 1975 United also provided, in addition to normal depreciation, amounts for the early retirement of aircraft due to casualty losses. These amounts were accumulated and reported separately as provisions for self-insured risks. Under the group/composite depreciation concept adopted January 1, 1975, depreciation provisions will include, in addition to the estimated amounts for normal retirement of aircraft, estimated amounts for early retirements due to casualty losses. Accordingly, accumulated provisions for self-insured risks have been reclassified to accumulated depreciation in the accompanying statements of consolidated financial position.

Income Taxes
The companies provide deferred income taxes to recognize the tax effects of timing differences, i.e., those items of expense which affect income for tax purposes in a period different from that in which they affect income for accounting and reporting purposes. As a result, the income tax expense recorded for any period represents the total taxes applicable to the income reported in the financial statements for that period, regardless of when such taxes are actually paid.

Investment tax credit benefits are accounted for using the "flow-through" method. However, such benefits are included in earnings only when such tax credits are actually used to reduce Federal income taxes paid.

Interest Capitalized
To properly reflect their total cost, additions to operating property and equipment include interest capitalized on funds advanced to manufacturers and contractors during construction, based on the weighted average interest rate of debt outstanding (airline) or the current interest cost for borrowed funds for specific projects (hotels).

Assuming interest capitalized were to have been charged to expense as incurred in current and prior years, the effect on net earnings for 1974 and 1973 would have been immaterial.

Pre-operating Costs
Aircraft introductory costs, such as the cost of training personnel to operate and maintain a new type of aircraft, are deferred during the pre-introductory and introductory periods and are amortized over the first three years of operation of the aircraft.

Pre-opening expenses for hotels are amortized over periods of three to five years or, in the case of some leased hotels, over the period (generally ten years) provided by the lease for such costs to be recognized in the computation of rentals.

Net Earnings

In 1974, UAL repurchased \$48,213,000 principal amount (approximately 21 per cent) of the then outstanding United convertible debentures for \$26,733,000 through a

cash offer to debenture-holders. After expenses, including $10,059,000 of deferred income taxes, the gain on the repurchase of this indebtedness was $10,714,000, or 43¢ per common and common equivalent share, and is included in net earnings.

Net earnings for 1973 were (a) increased by $2,990,000 as a result of United's receiving additional mail pay revenue for prior years and (b) reduced by $6,827,000 for additional depreciation provided on aircraft equipped with non-fan engines.

Earnings per common and common equivalent share in 1974 and 1973 are after providing for dividends on prior preferred stock and assume that the Series A preferred stock was converted to common stock at the beginning of each period. The average number of shares used in the computations was 24,899,119 for both years.

Earnings per common share, assuming issuance of all dilutive contingent shares, reflect the assumed conversion of outstanding convertible debentures if such assumed conversion would reduce per-share earnings. The computation assumes that funds which would have been received upon conversion were used to purchase common shares at the average market price for the period; net earnings were adjusted for the after-tax effect of interest on the debentures. The average number of shares used in the computation for 1974 was 25,702,628. The assumed conversion of outstanding convertible debentures did not have a dilutive effect on per-share results for 1973.

Income Taxes

The companies' income tax expense consisted of:

	1974	1973
	(000)	
Current—		
Federal	**$ 18,216**	$ —
State	**4,161**	2,235
Foreign	**733**	1,251
	$ 23,110	$ 3,486
Deferred—		
Federal	**$ 94,096**	$46,956
State	**4,113**	160
Foreign	**1,725**	467
	$ 99,934	$47,583
	$123,044	$51,069

Under the companies' accounting policy, deferred income taxes are provided for timing differences between reported income and income for tax purposes. The most significant recurring timing difference relates to depreciation for which the companies' allowable tax deductions currently exceed depreciation expense recorded in the accounts because of the use for tax purposes of accelerated methods (instead of the straight-line method used for accounting purposes) and, in general, shorter lives. Other, less significant, differences include interest capitalized and pre-operating costs. In addition, the payment of $75,673,000 of income taxes for 1974 and 1973 was deferred because of operating loss carryforwards. These loss carryforwards arose from timing differences in prior years. No unused loss carryforwards remain at December 31, 1974.

Deferred tax provisions were attributable to:

	1974 Estimated		1973
		(000)	
Operating loss carryforwards	**$37,141**		$38,532
Depreciation differences and interest capitalized	**36,124**		5,352
Adjustments of prior years' tax provisions occasioned by income tax refund	**14,597**		—
Gain on debenture repurchase	**10,059**		—
Other, net	**2,013**		3,699
	$99,934		$47,583

The overall effective rate for all taxes based on income was higher than the statutory Federal income tax rate for the following reasons:

	1974	1973
Statutory tax rate	**48.0%**	48.0%
State income taxes, net of Federal income tax benefits	**1.9**	1.2
Adjustments of prior years' tax provisions occasioned by income tax refund	**6.5**	—
Investment tax credits earned	**(2.7)**	—
Other, net	**1.2**	0.8
Effective income tax rate	**54.9%**	50.0%

Investment tax credit benefits of $6,000,000 were included in net earnings for 1974. No such benefits were realized or reflected in earnings for 1973. At December 31, 1974, an estimated $138,000,000 of unused investment tax credits remain available to reduce income taxes payable in future years. Of these unused credits, $2,800,000 expire in 1975, $10,200,000 expire in 1976 and $97,600,000 expire in 1977 through 1979.

In 1974, United received a Federal income tax refund of $40,346,000, together with interest thereon of $21,300,000. The refund resulted from a determination by the Internal Revenue Service that United had, as previously claimed by the company, made overpayments of taxes for the years 1962 through 1966. The refunds were allowed in recognition of United's having claimed less depreciation in its tax returns than it was entitled to under the law. The income taxes refunded were at less than the statutory rate, principally because of investment tax credits allowed in the years involved. Accordingly, additional tax provisions of $14,597,000 were charged against 1974 earnings to restore accumulated deferred income taxes for these prior years to appropriate levels. Interest income for 1974 includes the interest received on the refund. There was no material effect on net earnings, however, because such income was substantially offset by the income taxes payable thereon together with the additional deferred tax provisions.

Retirement Plan Expense

The companies have various retirement plans under which substantially all of their approximately 59,000 employees participate or are eligible to participate. The companies' policy is to fund pension cost each year as it accrues. The total pension expense was $75,345,000 in 1974 and $67,823,000 in 1973.

These amounts include, as to certain of the plans, amortization of unfunded prior-service costs over a thirty-year period. Unfunded prior-service costs are approximately $225,000,000 and arose primarily from 1972 amendments to the plans.

The pension funds' assets exceed the actuarially computed value of vested benefits.

The Pension Reform Act of 1974 requires the companies to amend their retirement plans to conform with certain provisions of the Act, which will become effective in 1976. The companies believe that the effect on annual pension costs for 1976 and subsequent years resulting from these amendments will not be significant.

Long-Term Debt

A summary of long-term debt as of December 31 is as follows:

	1974	1973
	(000)	
Senior Debt:		
4% Sinking fund debentures due 1981	**$ 48,000**	$ 56,000
5% Notes due 1984	**54,000**	60,000
5% Notes due 1985	**175,000**	175,000
6½% Notes due 1990	**200,000**	200,000
7½% Notes due 1990	**150,000**	150,000
Mortgage notes, interest 5¾% to 12¾%	**104,544**	84,837
Promissory note, 9%, due 1979	**17,320**	—
Other	**8,536**	12,988
	$757,400	$738,825
Subordinated Debt (after reduction for debentures repurchased in 1974):		
4¼% Convertible debentures due 1992	**99,221**	130,807
5% Convertible debentures due 1991	**82,745**	99,372
	$939,366	$969,004

In June 1974, United cancelled the remaining $85,000,000 available under the terms of its Revolving Bank Credit Agreement. No loans had been outstanding under the Credit Agreement since the second quarter of 1973. Termination of the Agreement had been scheduled for October 1, 1975.

UAL repurchased $48,213,000 principal amount of United's subordinated debentures in 1974 ($16,627,000 of 5% debentures and $31,586,000 of 4¼% debentures). The debentures are held in the treasury and may be used for sinking fund requirements beginning in 1977 for the 5% debentures and 1978 for the 4¼% debentures.

Sinking fund requirements and maturities of long-term debt (after reduction for the debentures repurchased) for each of the next five years are:

	(000)
1975	$23,185
1976	48,476
1977	55,258
1978	45,609
1979	61,207

On or prior to December 1, 1981, each $100 principal amount of the 5% debentures is convertible, upon payment of $35 cash, into 2.44 shares of UAL common stock, a conversion price of $55.32 per share. On or prior to July 1, 1982, each $100 principal amount of the 4¼% debentures is convertible, upon payment of $26 cash, into 1.62 shares of UAL common stock, a conversion price of $77.79 per share.

Assets of subsidiaries, other than United, having an aggregate book value of approximately $221,300,000, are pledged under certain loan agreements. Approximately $5,200,000 of United's senior debt is secured under equipment purchase contracts. Also, 427,640 shares of the Series A preferred stock held in the treasury are subject to certain escrow

arrangements under stock purchase contracts.

Lease Obligations

United currently leases 92 of its aircraft; the majority of these leases have terms of 15 years and expiration dates ranging from 1975 through 1988. Under the terms of leases for 30 of the aircraft, United has the right of first refusal to purchase the aircraft for fair market value at the end of the lease term. One leased DC-10 aircraft is subleased to another airline and will be returned to United in 1975. Other leases include airport passenger terminal space, aircraft hangars and related maintenance facilities, cargo terminals, flight kitchens and other equipment.

In 1974, United was reimbursed $74,989,000 for construction costs it had advanced for improvements to its maintenance facilities in San Francisco. The improvements are leased to United by the San Francisco Airport Improvement Corporation.

Majority-owned subsidiaries of Western International hold leases on six hotels expiring from 1982 through 2003. Most of these leases grant the lessee an option to renew.

Financing leases, below, refer to leases which cover 75 per cent or more of the economic life of the property, or have terms which assure the lessor full recovery of his investment plus a reasonable return. Contingent rentals relate to hotel operations and are generally based on a percentage of operating profits.

Rental expense for the years 1974 and 1973 was comprised of:

	1974	1973
	(000)	
Basic or minimum rentals—		
Noncapitalized financing leases	**$111,992**	$100,192
Other	**11,135**	13,238
	$123,127	$113,430
Contingent rentals—		
Noncapitalized financing leases	**$ 2,088**	$ 1,673
Other	**482**	277
	$ 2,570	$ 1,950
	$125,697	$115,380

As of December 31, 1974, the companies' commitments for basic or minimum rentals were as follows:

	Financing Leases	Other Leases
	(000)	
Payable during—		
1975	$113,314	$3,959
1976	110,548	3,471
1977	108,469	3,020
1978	101,945	2,740
1979	96,499	2,545
1980-1984	406,338	5,516
1985-1989	210,985	2,293
1990-1994	128,676	1,434
1995 and later	204,174	2,438

The present values of minimum commitments for financing leases, based on interest rates implicit in the leases ranging from 5 to 11.25 per cent for aircraft and from 2.2 to 8.75 per cent for all other property (weighted average of 6.92 per cent for 1974 and 6.71 per cent for 1973), were:

	December 31 1974	1973
	(000)	
Airline—		
Aircraft	**$427,270**	$481,705
Ground facilities	**365,957**	245,384
Other	**2,705**	3,486
Hotels	**86,117**	84,639
	$882,049	$815,214

Assuming the companies were to have capitalized their financing leases, amortized the cost of the rights to the leased assets on a straight-line basis and reflected interest expense on the basis of the outstanding lease liability, net earnings would have been reduced by $6,940,000 in 1974 and $7,811,000 in 1973. This reduction in net earnings is caused by the aggregate of the assumed amortization ($66,587,000 in 1974 and $63,993,000 in 1973) and interest expense ($58,750,000 in 1974 and $51,220,000 in 1973) being greater than the actual rentals paid.

Commitments

Commitments for property and equipment at December 31, 1974, approximated $240,763,000 after deducting $35,878,000 advance payments. The expenditures are estimated to be $216,168,000 in 1975, $15,895,000 in 1976 and $8,700,000 in 1977. The major commitments are for seven DC-10 aircraft.

Stock Options

Under qualified stock option plans, options for 181,450 shares of common stock were outstanding at December 31, 1973. During 1974, options for 12,100 shares expired. At December 31, 1974 options for 169,350 shares at prices from $17.38 to $34.25 (weighted average $26.96) were outstanding and 128,225 shares were reserved for future options.

Stockholders' Capital

Shares of common stock outstanding increased 3,059,587 from 21,177,679 at year end 1973 to 24,237,266 at the close of 1974, as a result of conversions of Series A preferred stock. Series A preferred stock outstanding decreased correspondingly. This issue of stock is convertible into common stock on a share-for-share basis.

Prior preferred stock outstanding decreased to 71,702 shares, reflecting the redemption of 23,708 shares in 1973 and 10,000 shares in 1974. The shares redeemed were reacquired at a discount which increased additional capital invested by $504,000 in 1973 and $385,000 in 1974. Redemption of an additional 3,332 shares is required by June 1, 1980 and 4,770 shares by June 1 of each year thereafter.

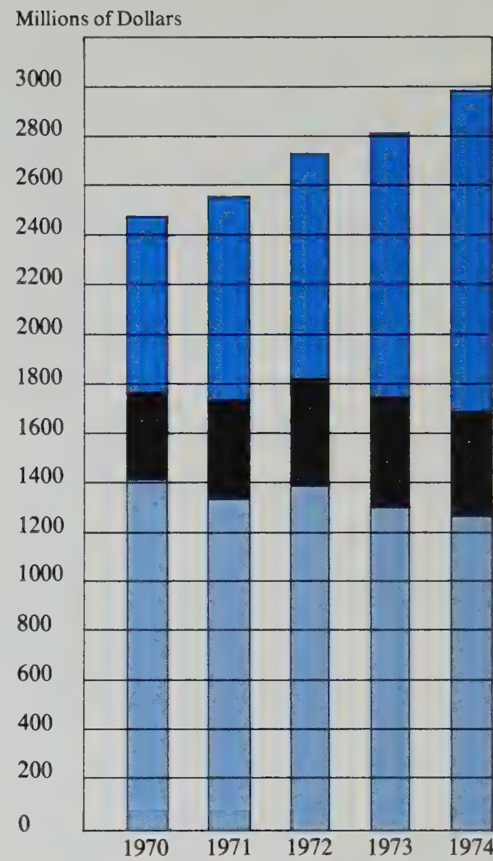
UAL, Inc.
Notes to Consolidated Financial Statements
(continued)

At December 31, 1974, there were 4,742,501 shares of common stock reserved for conversion of convertible debentures and Series A preferred stock.

Statements of Consolidated Retained Earnings

	1974	1973
	(000)	
Balance at beginning of year	**$242,275**	$193,159
Net earnings	**101,002**	51,128
	$343,277	$244,287
Cash dividends—		
Prior preferred stock—$5.50 per share	**$ 429**	$ 494
Series A preferred stock—40¢ per share	**702**	1,518
Common stock—65¢ per share in 1974	**15,167**	—
	$ 16,298	$ 2,012
Balance at end of year	**$326,979**	$242,275

Substantially all of the retained earnings at December 31, 1974 are represented by undistributed earnings of subsidiaries. Of these undistributed earnings, $124,132,000 of United's retained earnings are restricted under certain of its financing agreements as to the payment of cash dividends.



Operating Property And Equipment

Accumulated Depreciation
Net Book Value of Ground Property
Net Book Value of Flight Equipment

Auditors' Report

To the Stockholders and Board of Directors, UAL, Inc.:

We have examined the statements of consolidated financial position of UAL, Inc. (a Delaware corporation) and subsidiary companies as of December 31, 1974 and 1973, and the related statements of earnings, retained earnings and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying financial statements present fairly the financial position of the companies as of December 31, 1974 and 1973, and the results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied during the periods.

Chicago, Illinois
February 12, 1975

Arthur Andersen & Co.

UAL, Inc.
Summary of Consolidated Operations

for the years ended December 31	1974	1973	1972	1971	1970
	(Thousands of dollars)				
Operating revenues:					
Airline—					
Passenger	**$ 1,989,657**	$ 1,749,389	$ 1,549,285	$ 1,348,605	$ 1,354,106
Cargo	**193,915**	189,229	172,126	157,496	155,420
Other revenue, net	**35,679**	7,085	4,965	20,955	(7,927)
Hotels	**145,816**	114,565	101,981	90,514	88,471
	$ 2,365,067	$ 2,060,268	$ 1,828,357	$ 1,617,570	$ 1,590,070
Operating expenses exclusive of income taxes	**2,167,593**	1,898,092	1,743,817	1,575,099	1,603,111
Earnings (loss) from operations	**$ 197,474**	$ 162,176	$ 84,540	$ 42,471	$ (13,041)
Other deductions (income), net:					
Interest on long-term debt	**$ 61,296**	$ 61,541	$ 60,768	$ 59,015	$ 56,983
Interest income	**(66,739)**	(17,668)	(5,262)	(3,334)	(3,087)
Gain on debenture repurchase	**(20,603)**	—	—	—	—
Non-operating aircraft expense	**—**	15,211	6,066	—	—
Other, net	**(526)**	895	(11,310)	(7,287)	(16,680)
	$ (26,572)	$ 59,979	$ 50,262	$ 48,394	$ 37,216
Earnings (loss) before income taxes	**$ 224,046**	$ 102,197	$ 34,278	$ (5,923)	$ (50,257)
Income taxes	**123,044**	51,069	13,902	(852)	(9,380)
Net earnings (loss)	**$ 101,002**	$ 51,128	$ 20,376	$ (5,071)	$ (40,877)
Dividends on preferred stocks	**1,131**	2,012	2,100	2,100	2,127
Earnings (loss) applicable to common stock	**$ 99,871**	$ 49,116	$ 18,276	$ (7,171)	$ (43,004)
Earnings (loss) per common and common equivalent share	**$ 4.04***	$ 2.03	$ .80	$ (.36)	$ (2.33)
Cash dividends declared on common stock	**$ .65**	$ —	$ —	$ —	$ .75
Shares used in computing earnings (loss) per common and common equivalent share	**24,899,119***	24,899,119	24,882,064	19,770,111	18,424,059

*Earnings per common share assuming issuance of all dilutive contingent shares were $4.01. The average number of shares used in the computation was 25,702,628. The assumed conversion of outstanding convertible debentures did not have a dilutive effect on per-share results in prior years.

Management's Discussion and Analysis of Summary of Consolidated Operations

The company's pre-tax earnings by its principal lines of business for the five years ended December 31, 1974 were—

	1974	1973	1972	1971	1970
		(Thousands of dollars)			
Airline	**$194,316**	$ 95,029	$26,299	$(10,401)	$(60,677)
Hotels	**9,127**	7,168	7,979*	4,478	10,420*
	$203,443	$102,197	$34,278	$ (5,923)	$(50,257)
Gain on debenture repurchase	**20,603**				
	$224,046				

*Includes in 1970—$5,976,000 pre-tax gain on sale of hotels and in 1972—$3,140,000 on sale of a hotel and adjustments to investments in two other hotels.

Changes in Operating Revenues

Airline passenger revenues in 1973 increased 12.9 percent over 1972 with revenue passenger miles up 8 percent over 1972 and average revenue per passenger mile increasing by 4.5 percent. The improvement in cargo revenues in 1973 is attributable to increases in both volumes and rates.

Airline passenger and cargo revenues increased 12.6 percent in 1974 due almost entirely to higher fares and rates.

Other airline revenues are affected significantly by Mutual Aid payments to other airlines. These payments were $20,905,000 in 1972, $28,490,000 in 1973 and $5,846,000 in 1974.

Revenues from hotel operations were up in both 1973 and 1974 because of increases in the average room rates, higher occupancy rates and additional revenues from newly constructed or acquired properties.

Changes in Operating Expenses

Operating expenses for 1973 reflect higher costs attributable to the energy situation, as well as increases in wages and the costs of other goods and services. Expenses for 1973 reflect additional depreciation provisions (attributable to the energy situation) of $8,928,000 for non-fan aircraft.

Operating expenses in 1974 were up 14.2 percent over 1973. Despite close control of expenses, inflationary pressures outpaced productivity gains.

The rise in operating expenses was attributable to substantial increases in the price of fuel and continuing increases in labor rates, purchased material and material and equipment costs. Reduced flying and fuel conservation measures lowered fuel consumption almost 12 percent in 1974. However, fuel costs totaled $315,000,000 in 1974 compared with $212,000,000 in 1973, the result of a 68 percent increase in the average price per gallon for jet fuel.

Changes in Other Deductions (Income), Net

The increase in interest income in 1973 and 1974 is attributable to the companies' higher levels of temporary cash investments and, in 1974, to higher interest rates. Interest income in 1974 also includes $21,300,000 of interest on a refund of Federal income taxes. (Because of certain related additional provisions for prior years' income taxes, the interest received on the tax refund did not have a material effect on 1974 net earnings.)

Non-operating aircraft expense in 1972 and 1973 includes depreciation expense and other costs for Boeing 720 aircraft removed from service in 1972. These aircraft have been written down to a nominal value.

Changes in Income Taxes

The components of income taxes for 1974 and 1973 and a reconciliation from the statutory Federal income tax rate to the overall effective rate for all taxes based on income are set forth in the notes to consolidated financial statements.

UAL, Inc. 5 Year Comparative Statistics

	1974	1973	1972	1971	1970
Financial					
Net working capital at 12/31 (000's)	**$ 369,029**	$ 166,658	$ 23,334	$ 69,680	$ 36,595
Capital expenditures (000's)	**253,553**	127,646	308,534	151,261	262,909
Per common share—					
Earnings (loss) per common and common equivalent share	**$ 4.04**	$ 2.03	$ .80	$ (.36)	$ (2.33)
Earnings (loss) per common share assuming issuance of all dilutive contingent shares	**4.01**	2.03	.80	(.36)	(2.33)
Cash dividends paid	**.65**	—	—	—	.75
Stockholders' equity at 12/31	**31.75**	28.34	26.59	25.79	25.15
Shares outstanding at 12/31:					
Preferred	**733,555**	3,803,142	3,907,488	3,900,403	3,901,232
Common	**24,237,266**	21,177,679	21,097,041	20,923,865	18,424,065
Number of common stockholders	**51,720**	51,231	48,123	51,940	60,561
Operating earnings (loss) as % of revenues	**8.3%**	7.9%	4.6%	2.6%	(.8)%
Revenue as % of invested capital	**134.3%**	121.0%	106.7%	97.3%	97.1%
Return on investment*	**7.9%**	6.3%	4.7%	3.5%	1.2%

Operating

Airline— *Mileage, passenger and ton mile figures shown in thousands*

	1974	1973	1972	1971	1970
Revenue airplane miles flown	**359,707**	403,267	406,184	411,352	439,462
Revenue passenger miles	**29,295,938**	29,121,456	26,952,153	23,602,146	25,280,807
Revenue passengers	**31,510**	31,176	29,591	26,048	28,527
Available seat miles	**49,147,146**	52,150,319	49,359,145	47,324,513	48,734,160
Available ton miles	**7,269,638**	7,813,084	7,487,478	7,188,377	7,337,114
Revenue ton miles:	**3,734,110**	3,747,063	3,499,732	3,129,068	3,284,986
Passenger ton miles	**2,929,551**	2,912,101	2,695,125	2,360,140	2,528,046
Freight ton miles	**628,309**	650,297	616,346	582,220	545,102
Mail ton miles	**161,283**	164,524	170,651	170,022	188,645
Express ton miles	**14,967**	20,141	17,610	16,686	23,193
Percent of scheduled miles flown	**99.1%**	98.8%	98.5%	98.6%	96.7%
Passenger load factor	**59.6%**	55.8%	54.6%	49.9%	51.9%
Payload factor	**51.4%**	48.0%	46.7%	43.5%	44.8%
Passenger revenue per passenger mile	**$ .068**	$ .060	$ .057	$ .057	$ .054
Revenue per ton mile of payload:					
Passenger	**$ .679**	$ .601	$ .575	$ .571	$ .536
Freight	**.239**	.216	.211	.199	.203
Mail	**.236**	.222	.211	.206	.211
Express	**.375**	.335	.340	.351	.328
Average	**.585**	.516	.493	.481	.460
Operating Expenses:					
Per revenue ton mile	**$ .546**	$ .479	$ .472	$ .478	$ .464
Per available ton mile	**.280**	.230	.220	.208	.208
Number of aircraft in fleet at 12/31	**376**	369	363	381	376
Hotels—					
Occupancy	**77.5%**	76.3%	73.9%	71.8%	75.2%
Average daily rate	**$ 32.88**	$ 30.34	$ 28.02	$ 27.51	$ 26.69

Personnel

	1974	1973	1972	1971	1970
Airline—					
Average number of employees	**49,650**	49,009	48,230	48,213	52,079
Employee wages and benefits (000's)	**$ 930,382**	$ 832,660	$ 797,059	$ 725,995	$ 738,301
Investment in assets per employee	**$ 46,577**	$ 44,556	$ 45,058	$ 42,966	$ 39,362
Hotel employees	**9,533**	6,999	5,459	4,948	5,514

**Pertains only to the airline*

UAL, Inc.

5 Year Statement of Consolidated Financial Position

as of December 31	**1974**	1973	1972	1971	1970
			(Thousands of dollars)		
Assets:					
Current assets—					
Cash and securities	**$ 463,726**	$ 235,487	$ 73,959	$ 120,235	$ 55,630
Receivables	**262,733**	252,378	227,480	192,252	199,647
Maintenance and operating supplies	**122,289**	95,434	90,144	93,645	93,073
Prepaid expenses	**16,889**	19,196	18,097	19,477	15,084
	$ 865,637	$ 602,495	$ 409,680	$ 425,609	$ 363,434
Operating property and equipment, net	**1,673,949**	1,696,011	1,789,652	1,697,036	1,726,012
Other assets	**89,281**	87,077	110,679	82,454	67,449
Total assets	**$2,628,867**	$2,385,583	$2,310,011	$2,205,099	$2,156,895
Liabilities and Stockholders' Equity:					
Current liabilities	**$ 496,608**	$ 435,837	$ 386,346	$ 355,929	$ 326,839
Long-term debt	**939,366**	969,004	1,024,879	979,082	1,045,750
Deferred credits	**393,853**	266,136	231,727	224,589	214,343
	$1,829,827	$1,670,977	$1,642,952	$1,559,600	$1,586,932
Minority interest in subsidiaries	**$ 1,169**	$ 824	$ 526	$ 371	$ 1,157
Stockholders' equity—					
Prior preferred stock	**$ 7,170**	$ 8,170	$ 10,541	$ 10,541	$ 10,624
Preferred stock—Series A	**5,581**	20,879	21,282	21,246	21,246
Common stock	**121,186**	105,888	105,485	104,619	92,120
Additional capital invested	**339,073**	338,688	338,184	337,264	266,187
Retained earnings	**326,979**	242,275	193,159	173,576	180,747
Less-Treasury stock—Series A	**(2,118)**	(2,118)	(2,118)	(2,118)	(2,118)
	$ 797,871	$ 713,782	$ 666,533	$ 645,128	$ 568,806
Total liabilities and stockholders' equity	**$2,628,867**	$2,385,583	$2,310,011	$2,205,099	$2,156,895

UAL, Inc.

Directors

Curtis Barkes
Chairman, Finance and Audit Committee, UAL, Inc.

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Chairman and Chief Executive Officer, UAL, Inc. and United Airlines

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President and Chief Executive Officer, Wells Fargo Bank, San Francisco

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Chairman and Chief Executive Officer, Dart Industries, Inc., Los Angeles

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Chairman and Chief Executive Officer, Western International Hotels Company, Seattle

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Semon E. Knudsen
Chairman of the Board White Motor Corporation, Cleveland

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Consumer Affairs Consultant Detroit

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Partner, N.G. Petry Construction Co., Denver

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Assistant Treasurer

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Assistant Secretary

United Airlines

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Each of the Directors of UAL, Inc. except Mr. Mullikin is a Director of United Airlines. In addition, the Officers indicated by * are also Directors of United Airlines.

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W.A. Patterson

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Gardner Cowles
Thomas F. Gleed
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Aksel Nielsen

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Pacific
E.A. LaMarre
Northwestern
L.E. Perry
Southwestern
W.D. Smith
Hawaii

Western International Hotels

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San Francisco, California
Curtis Barkes
Rancho Sante Fe, California
Gordon Bass
Vice Chairman
Edward E. Carlson
Chairman and Chief Executive Officer, UAL, Inc. and United Airlines
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Kenneth R. Fisher
Chairman Fisher Properties, Seattle
Harry Henke, Jr.
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L.P. Himmelman
Chairman and Chief Executive Officer
Hugh A. Martin
President, Western Construction & Engineering Research, Ltd., Vancouver
Harry Mullikin
President
Lloyd W. Nordstrom
Co-Chairman of the Board Nordstrom, Inc., Seattle
Irvin E. Williamson
Vice President UAL, Inc.

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Chairman and Chief Executive Officer
Gordon Bass
Vice Chairman
Harry Mullikin
President

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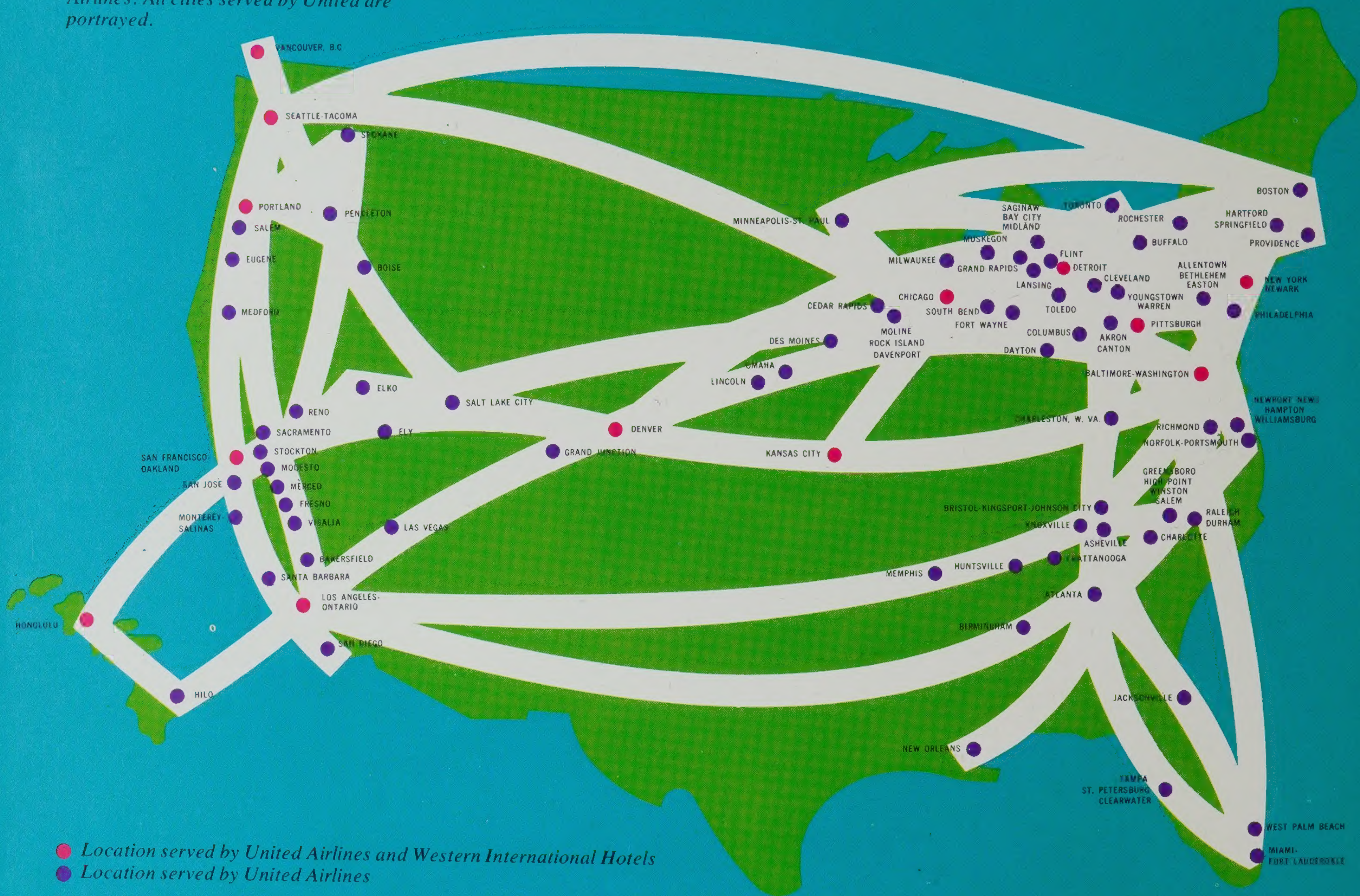
William D. Ellis
Controller & Assistant Treasurer
Peter E. Paget
Assistant Vice President & Assistant Secretary
Robert M. Wood
Assistant Treasurer

UAL, Inc.

P. O. Box 66100
Chicago, Illinois 60666

Standard route lines have been replaced by indications of general traffic flows on United Airlines. All cities served by United are portrayed.



Location served by United Airlines and Western International Hotels
Location served by United Airlines

United/Western International Hotels—Partners in travel.

Transfer Agents

COMMON STOCK
First National City Bank
111 Wall Street,
New York, New York 10015

Continental Illinois National Bank
and Trust Company of Chicago
231 South La Salle Street
Chicago, Illinois 60693

Seattle-First National Bank
P.O. Box 24186
Seattle, Washington 98124

SERIES A PREFERRED STOCK
Seattle-First National Bank
P. O. Box 24186,
Seattle, Washington 98124

First National City Bank
111 Wall Street,
New York, New York 10015

Registrars

COMMON STOCK
Bankers Trust Company
16 Wall Street,
New York, New York 10015

Harris Trust and Savings Bank
111 West Monroe Street
Chicago, Illinois 60690

The Bank of California, N.A.
P. O. Box 3095
Seattle, Washington 98114

SERIES A PREFERRED STOCK
Bankers Trust Company
16 Wall Street,
New York, New York 10015

The Bank of California, N.A.
P. O. Box 3095,
Seattle, Washington 98114

Shares Listed

COMMON STOCK
New York Stock Exchange
Midwest Stock Exchange
Pacific Stock Exchange

SERIES A PREFERRED STOCK
New York Stock Exchange

Executive Offices

UAL, Inc. and United Airlines
Mailing Address: P. O. Box 66100
Chicago, Illinois 60666
Location: 1200 Algonquin Road
Elk Grove Township, Illinois

Western International Hotels
Company
The Olympic Hotel
Seattle, Washington 98111

Form 10-K Annual Report

A copy of UAL, Inc.'s Form 10-K Annual Report, filed with the Securities and Exchange Commission, is available without charge to stockholders upon written request to the Secretary of the Corporation.

Annual Meeting

The annual meeting of stockholders will be held at the Century Plaza Hotel, 2025 Avenue of the Stars, Los Angeles, California, at 11:00 a.m. on Thursday, April 24, 1975.